GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:154
ANSWERED ON:25.11.2016
Service Tax on Life Insurance Policy
Singh Shri Lallu

Will the Minister of FINANCE be pleased to state:

(a) whether the service tax is leviable on the premium of life insurance policies and if so, the details thereof and the reasons therefor;

(b) whether the number of life insurance policies has decreased in the aftermath of introduction of service tax and if so, the number of life insurance policy holders under public and private life insurance companies before and after imposition of service tax during the last three years, company-wise; and

(c) whether the Government proposes to impose service tax on the maturity of insurance policy instead of levying at the beginning of the policy cover and if so, the details thereof and if not, the reasons therefor?

Answer

MINISTER OF FINANCE
(SHRI ARUN JAITLEY)

(a): There is no service tax levy on investment component of the premium of life insurance policy, as investment being a mere transaction in money, is outside the purview of service under the provisions of Finance Act, 1994. Service tax is leviable on that component of premium of life insurance policy which pertains to the risk cover and managing investment for the policy holders. This component of life insurance policy is the consideration for life insurance provided, which is a taxable service under the provisions of the Finance Act.
(b): After imposition of service tax on life insurance services with effect from 10-09-2004, there was a continuous increase in new policies issued till 2009-10. There has been a decline in the new policies issued since 2010-11 to 2014-15. Hence, this decline cannot be attributed to service tax. The decline can be because of several factors, such as, increasing penetration of insurance policies, easier access and awareness towards other investment options giving better returns.
(c): No, Sir. Generally, the point of taxation is the earliest of the three events of issuance of invoice, receipt of consideration or completion of provision of service. Service tax is levied at the specified rate determined in accordance with the point of taxation determined under Point of Taxation Rules, 2011.
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